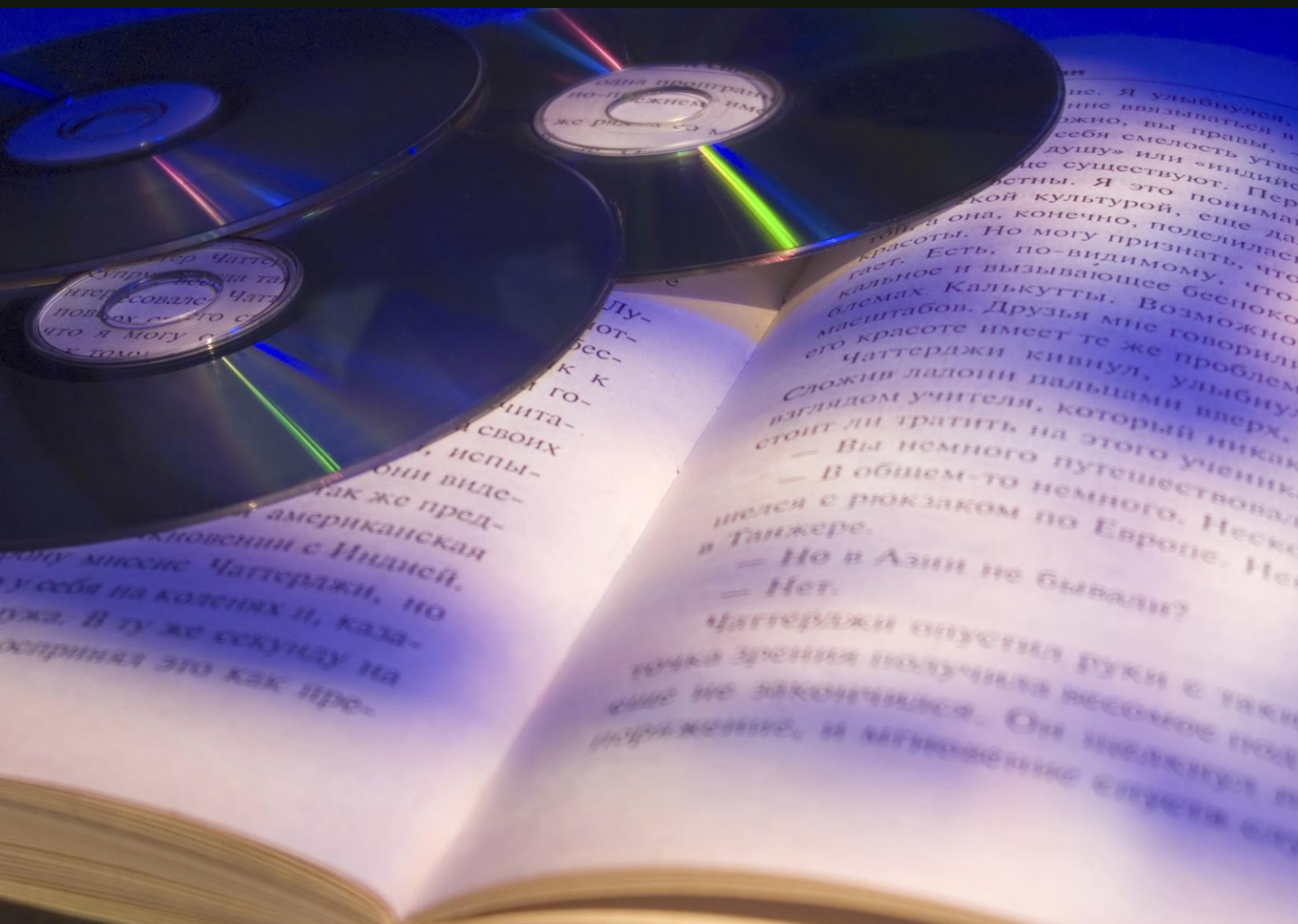


6. Online vs. Offline

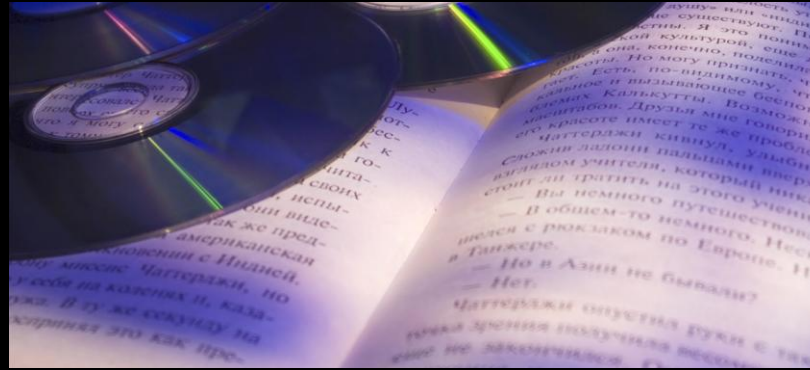
Our view:

- Key drivers for the adoption of online alternatives to physical products such as DVDs are price and ease of access to legitimate online content.
- The "permanent availability" of online content also offers opportunities to boost sales (and potentially to limit piracy).
- For movies, established windowing practices inhibit this approach and those who benefit today from those windows will fight to protect their place in the value chain.
- Amongst Laggards, in particular, demand for online content is likely to be constrained by a continuing desire for a physical artefact.

OLSWANG



6. Online vs. Offline



Migrating physical consumption online

"My explanation is that it is the impact of supermarkets selling DVDs...it's nothing to do with technology – it's more to do with supermarket size."

Media analyst

Many of the industry sectors represented by the executives we met continue to grapple with the interplay between the consumption of physical or other "offline" media (such as books, magazines, newspapers, CDs and DVDs - and also broadcast linear television) and the adoption of their online equivalents.

There is of course evidence (including in our previous surveys²⁸) to suggest that significant numbers of consumers are migrating away from the CD to the MP3 and from the DVD to on-demand TV and movie services. However, we have already seen in Chapter 4 that a significant proportion of our survey base indicated a preference for a "real" book over an electronic reader. One executive shared with us the results of internal research which suggested that one half of the UK population still wants to keep and collect the physical artefact (whether that is a CD, a DVD or a magazine) and does not feel the same sense of "ownership" over a digital file (leaving open the question of how much "value" the consumer ascribes to the artefact in circumstances where a digital equivalent is available at significantly lower cost, or even for free). This executive's organisation had experimented with giving away digital content and had found that, whilst this boosted sales of the physical product, actual usage of the digital content was very limited.

Magazine publishers, in particular, also shared with us strong views as to the manner in which online services should be developed in order to improve their chances of success. One international publisher explained that online should be treated no differently to any other distribution channel, with online brand extensions of physical products needing to be as good as any "pure play" online method of distribution to have any chance of take-up. Another publisher emphasised the need to recognise at all times that magazines and websites perform different functions and are consumed in different ways - it is not as straightforward as providing an identical online version of a physical product.

Executives across various sectors recognised the need to maintain a strong brand and to invest heavily in cross-promotion in order to improve the chances of success online (see also Chapter 8 for further consideration of the role of the "trusted brand" or "trusted guide" for online recommendation services, and in particular for consumers' attitudes to magazines and magazine websites in the context of recommendation services).

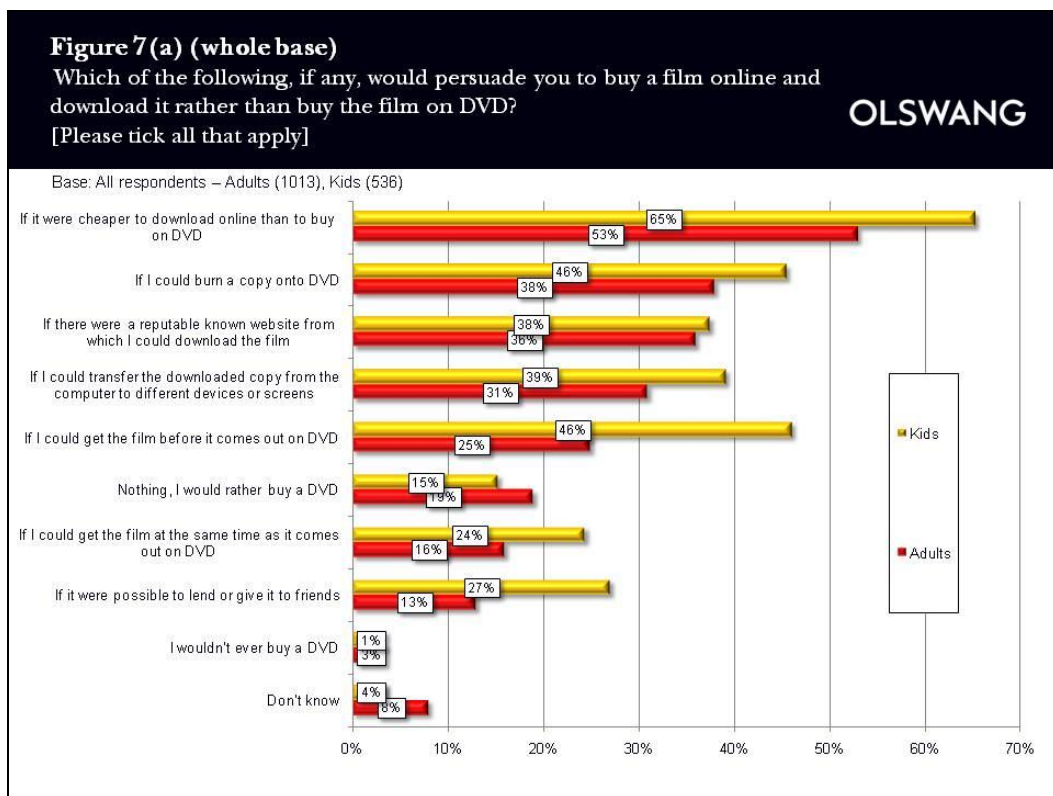
²⁸ See, for example, Chapters 2 and 5 of *Converging Media: Olswang Convergence Consumer Survey 2008*.

Encouraging online consumption

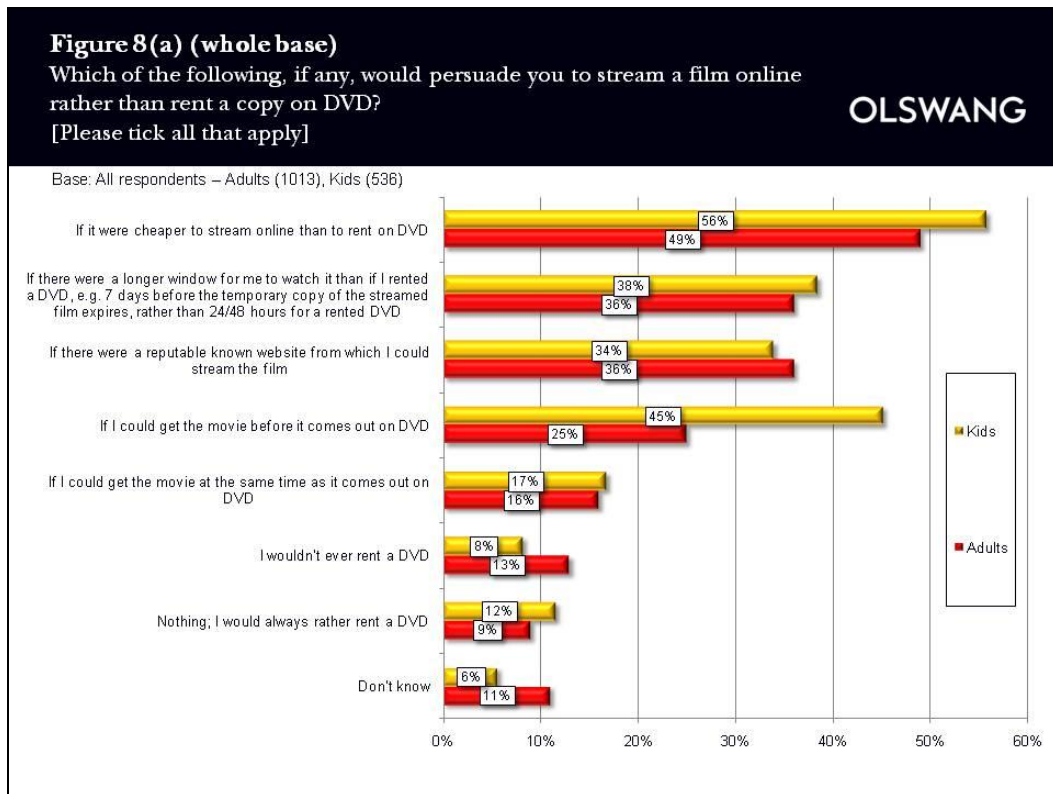
Considerable analysis has been undertaken as to the causes of the decline of certain physical media, in particular newspapers and DVDs, and it is easy to hold the growth of online services (and particularly free online services) responsible for this decline. However, as the quotation at the beginning of this Chapter suggests (and as other executives pointed out to us in our discussions), online availability is unlikely to be solely responsible, with the impact of supermarket pricing and the weakening of the advertising market just two examples of other factors impacting on physical distribution.

So how do businesses optimise online distribution? This year we decided to focus on the example of movie download services and streaming services, and to explore the extent to which consumers would be motivated to adopt these services instead of buying and renting DVDs.

In order to ensure that the "lean back vs. lean forward" factor of main TV consumption as opposed to PC consumption (which we have explored at length in previous surveys²⁹) did not obscure other issues, we asked consumers to assume that any downloaded or streamed movie would be viewable on the main TV screen in the home, and invited them to select the factors which would influence them to migrate to online consumption in these circumstances. Figures 7(a) and 8(a) set out the responses we received.



²⁹ See, for example, Chapter 7 of *Converging Media: Olswang Convergence Consumer Survey 2008*.



One online executive pointed out, and we accept, that one potentially significant factor which we overlooked when compiling this year's survey was the "I want it now" effect, i.e. the ability of a download or a stream to deliver a movie to the consumer immediately, without the need for the consumer to leave the home or wait for the post to arrive in order to obtain a retail or rental DVD.

However, amongst the factors which we **did** put to our survey base, it is clear that price is the key driver, with 53% of Adults and 65% of Kids selecting this as a motivating factor to buy a movie from a download service, and 49% and 56% respectively motivated by price in respect of streaming movie services.

It would also appear that significant numbers of consumers may currently be put off movie download and streaming services as a result of not knowing where to go to find legitimate online content, with over 30% of each of Adults and Kids suggesting that they would be persuaded to download or stream a film if there was a reputable known website from which they could obtain it.

Interestingly, only 19% of Adults and 15% of Kids said that they would rather buy a DVD and that nothing would persuade them to buy a movie download (with just 9% and 12%, respectively, giving the same response as regards DVD rental as compared to movie streaming). However, our tech adoption segmentation shows an interesting skew here, with some 28% of Laggards responding that they would always rather buy a DVD than a movie download.

Our Adult consumers appeared only moderately motivated by the date at which a movie download became available (with only 16% being motivated by "day and date" availability of movie downloads with DVD releases, and 25% being persuaded to download by the availability of a download in advance of a DVD release - and with similar results again obtained in relation to streamed online movie rentals). In contrast, this was a much more significant issue amongst the Kids, with the **advance** availability of a movie ranking as the second most popular motivating factor amongst Kids for download services (cited by 46% of Kids),

and with 24% of Kids motivated by the day and date availability of a movie download with that of a retail DVD.

Several of our discussions with industry executives explored the windowing of movies and TV programmes and the economics of movie and TV distribution. Although we received mixed views as to the true value of "long tail" archive movies and television shows, some executives acknowledged the opportunities presented by the "permanent availability" of content on multiple platforms at the **beginning** of the exploitation curve, where dark periods could be minimised or removed altogether in order both to disincentivise piracy and to make it easier to monetise online consumption, taking away the need to re-energise consumer interest through separate marketing initiatives for each window.

Nevertheless, a number of executives highlighted barriers to the establishment of true permanent availability. Certain broadcasters questioned whether studios would reduce the length of the theatrical window, asserting that separate divisions within studios frequently want to protect their own, separate P&Ls. One executive at a US studio suggested that we may in effect be witnessing the beginning of a migration to just two windows - "in home" and "out of home" - but that the "out of home" theatrical window would always be quite long.

Another executive suggested that, whilst Blu-ray will be heavily promoted in 2010 by the US studios in an attempt to "prop up" a struggling DVD market, the movie industry needs to find other ways of monetising its content. Although online subscription VOD services (SVOD) appear to offer a more significant opportunity than transactional or "pay per view" VOD, online service providers are currently constrained from creating compelling and competitive SVOD propositions as a result of the exclusivity of the movie rights granted by the studios to Sky, which requires recent titles to be removed from any SVOD service during Sky's exclusive pay-TV window. This executive argued that, particularly given the decline in physical product revenues, the studios may not be generating sufficient revenues from Sky to justify Sky's continued exclusivity in this area for much longer.

Several of our discussions considered the implications of piracy for windowing and online distribution. One executive at a US studio suggested that it was arguable that (whilst undesirable) piracy was currently at a sufficiently low level for the studios to be able to "*live with it*". Permanent availability might provide opportunities to reduce piracy and to build new online revenue streams, but in order to adopt such a risky distribution strategy, studios would need to be convinced that piracy would otherwise become significantly more prevalent, given the possibility of such an online strategy cannibalising other more profitable revenue streams (in particular theatrical). Other film executives also suggested that, for the right movie, piracy can actually contribute to the overall marketing of a title, with consumers willing go to the cinema to see a good film even if they have already viewed a pirate copy on PC.